



Available online at www.sciencedirect.com



European Journal of Political Economy 23 (2007) 512–532

European Journal of
POLITICAL
ECONOMY

www.elsevier.com/locate/ejpe

Immigration and welfare states: A survey of 15 years of research

Peter Nannestad *

Department of Political Science, University of Aarhus, Universitetsparken, DK-8000 Aarhus C, Denmark

Received 16 September 2005; received in revised form 17 March 2006; accepted 18 May 2006

Available online 1 December 2006

Abstract

Much of the research on immigration and Western welfare states seems to support the conclusion that immigration flows, with the average characteristics of the last 15 to 20 years' immigration, have tended not to be to the advantage of natives while advantageous for immigrants. Theory can easily account for the mechanisms underlying various aspects of this asymmetric distribution of gains from immigration but the empirical evidence is mixed in quite some instances. Thus we still face challenges for further research, possibly research giving more weight to the institutional dimensions of the determinants of immigration and of immigrant absorption.

© 2006 Elsevier B.V. All rights reserved.

JEL classifications: F22; I2; J62

Keywords: Immigration; Welfare state

1. Introduction

1.1. Immigration and the welfare state: Why care? Who cares?

Over the last 15 years a substantial body of literature has accumulated on the topic of "immigration and the welfare state". The high level of research activity in this field most likely mirrors recent empirical, immigration-related, trends in both Europe and the US.

Immigration into the US has been at record high levels beginning from 1990 (Borjas, 1999a: 6–8), even if only legal immigration is considered. In the same period many Western European countries have likewise experienced unprecedented growth in immigrant populations, although

* Tel.: +45 8942 1257.

E-mail address: pnannestad@ps.au.dk.

net-immigration to Europe generally declined during the 1990s (Brücker et al., 2002: 5–10). The Eastern enlargement of the EU pending since 1992 may have contributed to keeping questions pertaining to various aspects of the welfare state–immigration nexus on the agenda during the last decade.¹ The numbers of foreign-born – and the prospect that even more might come in the future – did arouse popular and political concerns about the consequences of immigration for the welfare systems in Western European countries and in the US, which most probably have propelled relevant research activities.

Both immigration and the welfare state are subjects that are normally studied in various social science disciplines, primarily in economics, political science, and sociology. From the outset one might therefore have expected to find all three disciplines eagerly engaged in studying the relationships between immigration and the welfare state and the consequences of the two for each other. This is not the case, however: most of the existing theoretical and empirical literature on the interplay between immigration and the welfare state is in economics and contributions from political scientists or sociologists are surprisingly few.² The reason for this state of affairs is not absence of research on the welfare state and immigration outside of economics over the last one and a half decades — quite to the contrary. For some reason, social scientists other than economists seem up to now to have been remarkably reluctant to combine the two subjects and to engage in research on the relation between welfare states and immigration.³

According to Boeri et al. (2002), economists enjoy comparative advantages in the study of immigration and its effects: not only are they in general good at problems involving trade-offs and cost–benefit calculations, they are also “notoriously pragmatic” people. Taking the last point a bit further, one might hypothesize that economists enjoy an additional advantage because their discipline seems in general less affected by the scourge of political correctness than some other disciplines in the social sciences.⁴ Given the present state of affairs – whatever the reasons behind it – the following discussion will of necessity be heavily tilted towards economic contributions to the study of the immigration–welfare state nexus.

1.2. Delimiting the scope of the survey

The boundaries of the field “immigration and the welfare state” are fuzzy. This is mainly because the term “welfare state” is hard to define in a precise manner (Barr, 1993: 6–8).⁵ Regardless of the choice of definition, all Western developed countries will normally qualify as

¹ See *inter alia* Bauer and Zimmermann (1999) and Sinn (2002).

² A notable and early exception is Freeman (1986). See also Bommes and Geddes (2000). Bommes (1999) represents a strongly Luhmann-inspired attempt at a theoretical analysis of the relationship between immigration and welfare states with little systematic empirical content.

³ The recently concluded 50 mill. Dkr. study of power and democracy in Denmark (commissioned by the Danish parliament) nicely illustrates that point. The project was steered mainly by political scientists. It produced – among many other things – analyses dealing with the development of the Danish welfare state. It also dealt quite extensively with immigration and immigrants. But anybody looking for a qualified discussion of the impact of immigration on the Danish welfare state (now or in the future) or vice versa will find himself looking in vain.

⁴ Traces of what looks like a bow to political correctness can be identified in some economic work on immigration and the welfare state as well, especially when it comes to calculating the extent of the use of welfare systems by immigrants and the ensuing costs to the taxpayer. This is pointed out by Borjas (1999a: 113), although he does not explicitly attribute the somewhat twisted calculations to political correctness.

⁵ “Immigration” is not an overly well-defined concept either. There are important differences between countries as to who is counted as an immigrant. While this can make comparisons over countries difficult, it has no impact on how to delimit the field “immigration and the welfare state”.

welfare states in some sense, albeit of rather different types (Esping-Andersen, 1990). From that perspective, every study of the determinants and the effects of immigration into Western countries could hence be subsumed under the heading “study of immigration and the welfare state”. As a consequence most of the literature on immigration would become relevant in this context.

In order to keep the task manageable, I focus on the relationship between immigration and (national) *welfare systems* in Western countries. Welfare systems will be defined as systems comprising of income transfers (cash benefits) and of certain benefits in kind (health, education, child care and care for the elderly).⁶ Thus the main question this essay will try to answer is *what we do know about the mutual relationships between immigration into Western countries and the welfare systems of these countries*.

One could claim that this question has already received at least two authoritative answers. Milton Friedman is widely quoted for having stated that free immigration is simply incompatible with a welfare state (Borjas, 1999a: 114). But since free immigration does not exist anywhere (except possibly in the mind of certain economists, cf. Rodrik, 2002), this statement does not tell us very much about the real world. Borjas (2005: 1) is more elaborate when stating that “(T)he most important lesson of the research is that the economic impact of immigration will vary by time and place, and that immigration can be either beneficial or harmful”. This statement is undoubtedly true, but that is also its main weakness: the statement is so undoubtedly true that its empirical information content must be approaching nil. It thus seems that there is some room left for discussing the main question of this essay.

In order to delimit the scope of this survey, two additional cuts are made. Mainly immigration into the US and into Western European countries⁷ is considered. Thus studies of immigration into Australia, Canada and New Zealand are generally omitted. This is a somewhat arbitrary choice based primarily on convenience.⁸ In the second place, focus will mainly be on the immigration from less developed countries (LDCs) and other peripheral countries, while for instance intra-EU migration will not be considered. The reason for that choice is that migration from LDCs and other peripheral countries into Western welfare states is by far the most important type of migration today, both in terms of its numerical magnitude and in terms of the saliency of the problems raised for receiving countries.

Surveying the relevant literature identifies four main strands of inquiry. There are, needless to say, others, but these four strands will be used to structure the following discussion.

The essay will start by considering the role of welfare systems as potential pull factors in international migration. Here the main question is if and how welfare systems in Western countries influence migration decisions, especially *who* migrates and *where to*. More specifically, the question is whether welfare systems in Western countries lead to adverse selection of immigrants and if they have an adverse effect on immigrants’ locational decision (i.e., are “welfare magnets”).

Secondly, the essay considers the effect of welfare systems on immigrant behavior in the host country. Since integration can be seen as a public good (Nannestad, 2004), the question is if and how welfare systems create incentives and disincentives for immigrant integration, especially in the labor market.

In the third place, the essay considers the impact of immigration and immigrants on the economies and the welfare systems in host countries. This question is, of course, closely related to

⁶ Of these, it is normally the system of cash benefits that studies of immigration and the welfare state focus on.

⁷ Including Israel.

⁸ It can be rationalized, however, by reference to important differences between these three countries and the rest of the Western welfare states – including the US – with respect to their immigration policy regimes.

the extent of immigrant absorption into labor markets. But immigration may also impact on the welfare systems in the host countries in a more indirect way, for instance by affecting native employment levels or native wages. Thus the focus will be on the distributional and the fiscal effects of immigration.

Fourth, the essay will briefly consider the impact of immigration on popular support for welfare systems and hence on the question how immigration may affect the future of welfare states. Here welfare systems will be endogenous while they are treated as exogenous in most of the preceding discussion.

2. Immigration into welfare states: negative self-selection?

It is hardly controversial to claim that the effects of immigration into Western welfare states are strongly dependent on who the immigrants turn out to be. From that perspective, understanding the mechanisms of immigrant (self)-selection is a key to understanding the effects of immigration.

2.1. Theory: the Roy–Borjas model

A basic model of immigrant self-selection has been suggested by Borjas (1994: 1687–1692), building on Roy's model of how workers sort themselves among available employment opportunities (Roy, 1951). The model assumes that the migration decision is determined solely by earnings opportunities in the source country, earnings opportunities in the host country, and migration costs.

From this model one can derive insights about which individuals might find it worthwhile to migrate, under different assumptions about the earnings distributions in the source and in the host country. Immigrants will be positively self-selected, i.e. have above-average earnings in both the source and the host country, if the correlation between the return to skills in the two countries is high and if the dispersion in the earnings distribution is higher in the host than in the source country. Immigrants will be negatively self-selected, i.e. have below-average earnings in both the source and the host country, if the correlation between the return to skills in the two countries is high and if the dispersion in the earnings distribution is higher in the source than in the host country (Borjas, 1994: 1689).⁹ Since one of the effects of welfare systems will normally be to reduce the dispersion of the earnings distribution by means of transfers and progressive taxes, the dispersion of the earnings distributions in Western welfare states will tend to be less than in many potential source countries. Hence immigration into Western welfare states, especially from LDCs, should be expected to consist predominately of negatively self-selected individuals, i.e. individuals with below-average skill levels relative to mean skill levels both in the source and in the host country.

Borjas' welfare magnets hypothesis (Borjas, 1999b) is a straightforward application of this result. With respect to immigration into the US, he expects to find that immigrant welfare recipients will cluster to a much higher extent than do natives in those states offering the highest levels of welfare benefits. The reason for this difference between immigrants and natives is migration costs. Immigrants incur migration costs in any case; hence it is costless for immigrant welfare recipients to move to the state offering the highest benefit levels. Native welfare

⁹ Borjas also considers the case of a low correlation between skills in the source and the host country (Borjas, 1994: 1689, eq. 15).

recipients, on the other hand, incur migration costs only if they decide to move to a state offering the highest benefit levels.

The Roy–Borjas model thus suggests two related hypotheses about how immigration into Western welfare states is affected by welfare systems. (i) Immigration into Western welfare states will tend to be negatively self-selected, i.e. to consist predominately of individuals with below-average skills (and associated earnings opportunities) in both the source countries and the host countries. (ii) Differences in the level of generosity of the welfare systems in different Western welfare states will lead to a sorting of immigrants where the most likely welfare recipients will cluster in the welfare states offering the highest levels of welfare benefits.

There are obvious weaknesses with the Roy–Borjas model and its predictions. In the first place it does not take into account the impact of institutions on the size and skill composition of immigration flows into Western welfare states. National immigration policies may well lead to a composition of the migrant population and characteristics that differ substantially from the skill composition if immigrants were totally self-selected income maximizers. Actually that is an important goal of such policies.¹⁰

The Roy–Borjas model also does not take into account the role of others in individual migration decisions. Nevertheless network and herd effects may be important for the decision whether to migrate at all and where to (Epstein and Gang, 2004). The existence of networks may lead to clustering by immigrants that is very different from what the welfare magnet thesis would predict, as may herd effects.

Finally the Roy–Borjas model does not take into account potential differences in individual attitudes towards risk. If individuals in the lower end of the source countries' earnings distribution are more risk-averse than others, this can influence the size and composition of migration flows (Heitmüller, 2002).

2.2. Empirics

To what extent can the predictions of the Roy–Borjas model of immigrant self-selection be empirically validated? Are immigrants into Western welfare states as a whole negatively self-selected, and do levels of welfare benefits affect the location choice of immigrants — with those most likely to end up as welfare recipients predominately immigrating to those welfare states that offer the highest benefit levels?

With respect to immigration into the US, Borjas (1990, 1994, 1998, 1999a) claims to have found empirical support both for negative self-selection of immigrants as a whole and for the welfare magnet effect.

One indicator of negative self-selection of immigrants into the US considered by Borjas is the declining skill level in the post-1965 immigrant cohorts. The declining level of skills in the immigrant population is what one would expect from negative self-selection, if the national origin mix of immigrants changes in favor of less developed countries where the dispersion in the earnings distribution will tend to be (even) higher than in the US. Such a change in the national origin mix of immigrants into the US did occur as a consequence of the 1965 Immigration Act.

Even closer to the core of the Roy–Borjas model is the finding that measures of income inequality in the source country are negatively related to the earnings of male immigrants in the

¹⁰ There is some debate as to the ability of nation states to maintain control of immigration in an era of globalization and human rights universalism, cf. Soysal (1994) and Sassen (1996) who see a corrosion of the steering capabilities of nation states in the field of immigration control. Joppke (1999) takes a different position.

US (Borjas, 1990, ch. 7; 1994, 1690–1691). Cobb-Clark (1993) has reported similar patterns for immigrant women. Thus it would seem that immigrants to the US indeed tend to be negatively self-selected in a way consistent with the model. Mayda (2005) likewise finds that inequality in the source and host economies is related to the size of emigration rates in the way predicted by the Roy–Borjas selection model.

Other studies report more mixed empirical evidence or findings that contradict the Roy–Borjas model in various respects. Hatton and Williamson (2000) find that per capita income and education levels in source countries have significant effects on migration. They also find, in line with Borjas (1990) and Cobb-Clark (1993), that immigration into the US increases with the degree of income inequality in source countries. On the other hand, they find that factors like cultural affinity (language) and pure geographical distance are also important for immigration into the US. So is the size of the immigrant population from a particular source country already residing in the US, which indicates network or herding effects.

On the other hand Chiquiar and Hanson (2002), analyzing Mexican immigration into the US, report results that do not seem to support the Roy–Borjas model. Since the dispersion of the Mexican earnings distribution exceeds the dispersion of earnings in the US, Mexican immigrants to the US should tend to be self-selected from the lower part of the Mexican skills distribution. But in fact Mexican immigrants turn out to be on average better educated than the average Mexican.

With respect to the welfare magnet thesis, Borjas (1998, 1999b) finds that immigrant welfare recipients do in fact cluster to a higher degree than natives in those states that offer the highest welfare benefit levels.¹¹ However, this result is driven by a small number of states only.¹²

Other evidence is less clear. Zavodny (1999) finds that immigrants seem to respond to interstate differences in the sizes of the foreign-born populations rather than to differences in welfare benefits. Thus network effects seem to dominate the location decision of new immigrants into the US. The welfare magnet effect is then spurious and caused by the fact that earlier immigrants have disproportionately located themselves in states with generous welfare benefit levels.

But even if the Roy–Borjas model is applicable to immigration to the US, it may still be less well suited to account for the mechanisms at work in the self-selection of immigrants into European welfare states and in their choice of location. From the Roy–Borjas model one should expect to find two trends in immigration from LDCs into European welfare states. (i) Skill levels among these immigrants should tend to be even lower than among immigrants into the US, because the dispersion of the earnings distributions in European welfare states tends to be smaller than in the US. (ii) European welfare states with the most generous welfare systems – primarily the Scandinavian welfare states (Esping-Andersen, 1990) – should act as welfare magnets.

However, the welfare magnet effect of differences between European welfare states with respect to the level of generosity of their welfare systems may easily be offset by the immigration policies of these countries. In the US, immigrants are free to choose what state to go to and can hence select the state offering the highest levels of welfare benefits, if they so desire. In Europe, immigrants cannot choose in this way. Since 1973 most European countries have had restrictive immigration policies leaving open only two gateways for legal entry (Zimmermann, 1995). One is through family reunification, while the other is through the asylum system. Immigrants availing

¹¹ The empirical support for a second implication – that the benefit elasticity, i.e. the change in the welfare participation rate brought about by a change in the benefit level should be greater in the immigrant than in the native population – is rather weak.

¹² The empirical analyses make use of the 1980 and 1990 Public Use Microdata Samples of the decennial Census.

themselves of the family reunification option are obviously constrained in their choice of destination country to those countries where they happen to have close relatives – normally a parent or a spouse – regardless of the welfare benefit levels of that country. Asylum seekers are not formally constrained in the same way in their choice of where to apply for asylum. However, even if they might have a preference for applying for asylum in countries with high levels of welfare benefits, they can be constrained in their choice of country by logistics, i.e. problems in arriving there, since most countries require asylum seekers to claim asylum in the first secure country they arrive in. Furthermore, in their choice of where to apply, asylum seekers may choose not to act as income maximizers in the strict sense but rather to try to maximize the chance of being admitted as a refugee.¹³

Pedersen et al. (2004) have examined the determinants of immigration from 129 source countries into 27 OECD countries over the period 1990–2000. The study includes as predictors, among others, cultural and linguistic distance between source and destination country, networks, and a proxy for the generosity of the welfare regimes in the destination countries. They do not find clear evidence of a “welfare magnet” effect. A partial explanation for this lack of evidence could be the restrictive migration policies of many OECD countries since 1973. A study of asylum applications in Western European countries in the period 1993–2004 (Nærø, 2005) likewise fails to find a sorting of asylum seekers in accordance with welfare benefit levels.

Empirical evidence for negative self-selection of immigrants into Western European welfare states also seems to be somewhat mixed. On the one hand, non-EU immigrants into Germany, Denmark, the Netherlands, Belgium, and France are considerably less well educated than EU-citizens in these countries (Brücker et al., 2002: 74–77). This could be interpreted as indicating that non-EU immigrants into these countries are primarily self-selected from the lower end of the skills distribution in their home countries, as predicted from the Roy–Borjas model. But as the study of Mexican immigration into the US has shown, immigrants may well be selected from the higher end of the skills distribution in the source country and still be substantially less educated than the natives in the destination country (Chiquiar and Hanson, 2002). On the other hand, non-EU immigrants into the UK, Greece, Spain and Portugal turn out to be better educated than the average native (Brücker et al., 2002: 74–77). Thus, based on education levels, there is no clear evidence for pervasive negative self-selection of immigrants into Western European welfare states.

In partial analogy with Zavodny (1999), the comparatively low educational levels of non-EU immigrants into Germany, Denmark, the Netherlands, Belgium, and France could be explained by a combination of the characteristics of the original immigrant population in these countries and later network effects. All five countries recruited immigrants under guest worker schemes up to 1973. Guest workers were mainly recruited for manual and “3-d” work. As a consequence immigrants with comparatively low skill levels were recruited. Thus it seems likely that the chain migration following the initial establishment of immigrant communities under guest worker schemes would likewise primarily consist of individuals from the lower end of the skill distribution. Thus the low skill levels among non-EU immigrants in the five countries can be due to the initial selection of low-skilled immigrants by the host countries, perpetuated later through family reunification, rather than to the negative self-selection of immigrants.

However, one should also not overlook the fact that the countries where non-EU immigrants are better educated than the natives have different types of welfare systems than do the countries where non-EU immigrants have lower skill levels than natives. The latter all have universalistic

¹³ Asylum statistics indicate that the number of applications for asylum is sensitive to changes in the country's asylum policies.

and the corporatist type of welfare system (Esping-Andersen, 1990). In both of these latter systems, welfare benefit levels are quite generous, although eligibility rules are quite different. The UK, Greece, Spain and Portugal, on the other hand, have the residual and the South European type of welfare system, where welfare benefit levels tend to be less generous. This sorting roughly agrees with the “welfare magnet” thesis.

2.3. Are immigrants into Western welfare states negatively self-selected?

The idea of negatively self-selected immigration into Western welfare states appears intuitively very plausible. So does the “welfare magnet” thesis. Nevertheless the empirical evidence so far appears inconclusive at best. This probably reflects the workings of factors that are not included in the Roy–Borjas model of immigrant self-selection, especially network effects and institutional constraints in the form of national immigration policies.¹⁴

Even though the precise selection mechanisms at work may be in need of further clarification, there are two stylized facts about contemporary immigration into Western welfare states. (i) Immigration into Western welfare states tends increasingly to originate from LDCs and other “peripheral” countries. (ii) Immigrants from those countries tend to be less skilled than the average native in most, but not all, Western welfare states. Both stylized facts may, but need not, be the result of negative self-selection by immigrants.

3. Immigration into welfare states: moral hazard?

Moral hazard problems are unavoidable in redistributive welfare states (Okun, 1975). They exist with both natives and immigrants. However, there exists a moral hazard problem that is specific to immigrants: the welfare system may weaken their incentives to take on the cost of integrating into the host society by acculturating to the degree necessary for at least their absorption into the labor market.

Immigrant integration can be considered a public good (much like public security). For economic, social and moral reasons, immigrant integration is socially preferable to immigrant segregation. But integration is not costless to the individual immigrant who has to spend resources on activities of learning a new language and possibly adapting to new and (to the immigrant) strange modes of behavior. His or her gain from integration is the ability to earn a wage. But if the difference between income earned from working and income from social transfers is not enough to outweigh the individual immigrant’s cost of integration, the rational choice of an immigrant is not to integrate and work but to live off social transfers. Thus the question is whether welfare systems in Western welfare states weaken immigrants’ selective incentives to integrate (Nannestad, 2004).

At the macro-level, welfare state generated moral hazard problems with respect to immigrants’ incentives for integration imply two patterns. (i) Immigrant integration should be negatively related to the level of generosity of welfare benefits in Western welfare states. (ii) The welfare dependency of immigrants should be higher than the welfare dependency of comparable natives, because immigrants face “integration costs” and natives do not. Thus immigrants should obtain less gain from working rather than being on welfare than natives.

¹⁴ A harmonization of immigration policies within the EU without a harmonization of welfare systems would provide a nice natural experiment for testing the “welfare magnet” thesis.

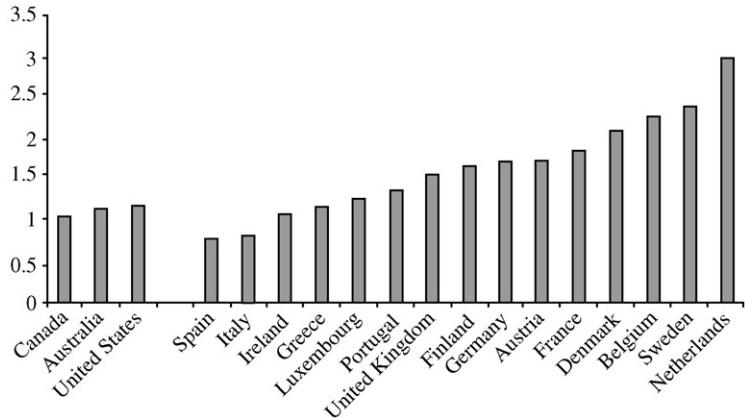


Fig. 1. Share of foreigners or foreign-born in total unemployment relative to their share in the labor force (1995–98 averages).

3.1. The relationship between welfare benefit levels and labor market integration

Data suggesting that immigrant integration might indeed be negatively related to the level of welfare benefits in Western welfare states have been published by [OECD \(2000\)](#), cf. Fig. 1.

As can be seen, excess unemployment of immigrants is much more pronounced in welfare states with generous welfare benefits than in countries with residual welfare systems, especially Canada, Australia and the US. But also the UK, the most prominent European example of a residual welfare state, is seemingly outperforming the more generous welfare states like Denmark, Sweden and the Netherlands in integrating immigrants into the labor market.

Yet the patterns in Fig. 1 could also be explained in other ways that do not imply moral hazard. For one, the patterns could simply reflect negative self-selection, with immigrants with the least marketable skills clustering in welfare states offering high benefit levels. Secondly, the patterns could also reflect a difference between “old” and “new” countries of immigration. Since labor market integration of immigrants tends to improve with length of stay in their host countries, for that reason alone excess unemployment among immigrants in “old” countries of immigration should be expected to be less than in “new” immigration countries.¹⁵

A survey-based, in-depth comparison of labor market integration of immigrants in Denmark and Germany ([Constant and Schultz-Nielsen, 2004](#)) provides some further indications of the impact of economic incentives. The study establishes that immigrants’ economic incentives to work are weaker in Denmark than in Germany: while 17% of the employed immigrants in Germany gain less than 100€ a month from working rather than receiving welfare benefits, the figure is 35% for immigrants in Denmark.¹⁶ At the same time, the study shows that immigrants in Denmark have lower labor market participation rates and higher unemployment rates than

¹⁵ Alternatively the patterns in Fig. 1 could also be interpreted as having been produced by differences between Western welfare states as to the xenophobia-induced level of labor market exclusion of immigrants. This, however, would require an explanation why levels of xenophobia and generosity of welfare systems should be correlated. [Nannestad \(2005\)](#) suggests a model of immigrant exclusion from labor markets in Western welfare states that does not require either natives or immigrants to pursue socially reproachable goals and that can account for the patterns in Fig. 1 as well.

¹⁶ If the cost of child care is included, the figures become 18% for immigrants in Germany and 41% for immigrants in Denmark.

immigrants in Germany (Schultz-Nielsen and Constant, 2004). Also the percentage meeting the ILO availability criteria is higher for unemployed immigrants in Germany (60%) than for unemployed immigrants in Denmark (51%). This difference is especially pronounced with unemployed immigrants on social assistance (rather than unemployment benefits), where 63% of the German, but only 30% of the Danish, immigrants meet the ILO availability criteria. These findings do suggest moral hazard as one of the explanations for the weaker labor market integration of immigrants in Denmark, compared to immigrants in Germany.

A survey-based comparison of the labor market integration of immigrants in Denmark and the UK (Nielsen, 2004) also lends some support to a moral hazard-interpretation of the difference between these two countries with respect to excess unemployment among immigrants. The study shows that the UK outperforms Denmark with respect to labor market integration of immigrants even after controlling for factors like the immigrants' length of stay, educational attainment level, religion, citizenship, country of origin, social contact with natives, and residential segregation.

Thus it would seem that "less" welfare state may indeed be better than "more" welfare state from the perspective of the labor market integration of immigrants, as low welfare benefit levels seem to reduce moral hazard problems. However, as the example of the UK illustrates, this need not hold true for integration in a broader sense, also including social and cultural integration. By virtue of its residual welfare system, the UK is probably better at integrating immigrants into the labor market than is Denmark. But as witnessed by the Oldham and Bradford riots in 2001 and the London subway bombings in 2005, this does not necessarily imply that the UK has been more successful than Denmark in the social and cultural integration of immigrants. The residual British welfare system may create strong economic incentives for immigrants to integrate into the labor market. But at the same time it may also create strong incentives to invest in safeguards against the consequences of various types of mishaps against which the residual British welfare system does not offer adequate protection. One's family and one's ethnic group can function as this type of safeguards. Thus, because of its residual character the British welfare state may strengthen the importance of family ties and ethnic networks for the immigrant as alternative providers of economic and social protection. This will tend to increase bonding, rather than bridging, social capital (Putnam, 2000) in the immigrants, leading in the end to segregationist tendencies rather than to integration. From that perspective, the relationship between welfare state and integration would be inverted U-shaped rather than linear, with both "too much" and "too little" welfare state being detrimental to immigrant integration.

3.2. Welfare dependency of immigrants

If Western welfare states create specific moral hazard problems with immigrants – over and above the moral hazard problems that are unavoidable companions of redistributive welfare states – one should expect immigrants to make use of the welfare systems of their host countries to a greater extent than comparable natives. One should also expect that the difference between immigrants and natives with respect to their use of the welfare system should be most marked in welfare states offering high levels of welfare benefits. The problem is again that excess welfare dependency of immigrants can be caused by factors other than moral hazard (like negative self-selection of immigrants).¹⁷ Therefore immigrants' excess welfare dependency need not be proof of moral hazard problems.

¹⁷ Interestingly, Brücker et al. (2002: 84–85) do not even consider moral hazard among the possible sources of immigrants' excess welfare dependency.

Empirical studies of the “welfare gap” between immigrants and natives have been conducted for both the US and for European countries. For the US Borjas and Hilton (1996) find that the unadjusted welfare gap of 7 percentage points is substantially reduced (to about 2 percentage points) when controlling for household size, the educational attainment, age, and gender of the household head, and the state of residence. Still a minor difference between the welfare use of comparable natives and immigrants remains, which could be indicative of a (minor) moral hazard problem specific to immigrants.

Brücker et al. (2002: 83–89) examine the excess (or residual) welfare dependency of immigrants into a number of European welfare states. They consider only unemployment benefits, old-age pensions and family benefits, but not social assistance programs. With respect to unemployment benefits they find significant levels of residual welfare dependency for immigrants in Denmark, the Netherlands, France, Austria, and Finland, while this is not true in Germany, the UK, Greece, and Spain. They also find that the size of the immigrants’ residual dependency on unemployment benefits is positively correlated with a generosity measure, but the relationship is only marginally significant. Thus there is some, although not impressively strong, evidence suggesting that the welfare systems in Western European countries may indeed create moral hazard problems that are specific to immigrants.

3.3. Do Western welfare states really face a moral hazard problem with immigrants?

As with negative self-selection of immigrants, the idea that immigrants into Western welfare states should give rise to a specific moral hazard problem (over and above the moral hazard problems built into the welfare state) appears intuitively plausible. But once more, the empirical evidence is not conclusive. This is mainly due to difficulties in empirically distinguishing the effects of negative self-selection and of moral hazard on differences between natives’ and immigrants’ labor market participation rates, unemployment, and welfare dependency.

From a pragmatic point of view (allegedly the hallmark of economists) one might claim that it is of minor importance whether immigrants into Western welfare states tend to exhibit lower levels of labor market attachment and higher levels of welfare dependency due to negative self-selection or due to moral hazard. But this need not be so from a policy perspective. If the source of the problem is negative self-selection of immigrants, immigration policy would appear to be the appropriate way to deal with it.¹⁸ If it is moral hazard, then reforms of the welfare system will be the remedy.

Regardless of the exact causal mechanisms producing this outcome, it appears that lower labor market participation rates, higher unemployment, and greater extent of welfare dependency among immigrants than among comparable natives in most Western welfare states have to be considered stylized facts.

4. Immigration to Western welfare states: are immigrants an asset or a burden?

In theory, migration and trade between countries with different factor endowments of labor and capital are equivalent and mutually beneficial to those involved. Thus immigrants should normally be considered an asset as long as their factor endowments differ from those of the natives. But in the presence of a welfare state with strong redistribution, gains from migration may become asymmetrically distributed between immigrants and natives (Wellisch and Walz, 1998; Hansen, 2003). Thus it is not at all given that immigrants are assets to Western welfare states.

¹⁸ Cf. Chand and Paldam (2004).

4.1. Gains from immigration

In the literature four types of gain from immigration are commonly suggested. The first one is the classical “immigration surplus”: immigrants can make the host society richer. The second one, which has received much attention lately, and for good reasons, too, is the positive effect of immigration on the age distribution in the host society. The third one is that immigration can make the labor market function more smoothly (Zimmermann, 1995: 46). The fourth one is the positive demand effect of immigration: immigrants increase aggregate demand for goods and services and in that way contribute to creating jobs and income for natives (Borjas, 1999a: 87–88).

While all these positive effects of immigration are certainly possible, their realization is critically dependent on the characteristics and behavior of the immigrants.¹⁹ As will be argued below, the overall characteristics of the present immigration into Western welfare states do not invite optimism as to the extent of positive economic effects of immigration into most host countries, except perhaps with respect to the effect on the functioning of labor markets.

Chand and Paldam (2004) model the economic effects of immigration into three types of host countries in terms of the net present value of income flows both for the immigrant and the natives. The analysis shows that in a guest worker society of the Dubai type immigration can indeed be mutually beneficial for natives and immigrants. The same may hold, but to a lesser degree, in a welfare state such as the US. In welfare states of the Scandinavian type, immigrants gain from immigration, while natives lose. These results are driven by the interaction between a λ -curve and a ρ -curve, where the λ -curve depicts labor market absorption as a function of time, while the ρ -curve depicts how social entitlements develop over time. However, the relationships between type of society and the λ - and ρ -curves are assumed rather than analytically derived.

4.1.1. The “immigration surplus”

An illustration of the “immigration surplus” is given in Fig. 2 under the usual simplifying assumptions. Immigration increases labor supply from S to S' and lowers wages from $w(0)$ to $w(1)$. As a consequence, an “immigration surplus” corresponding to the triangle BCD is created as the difference between how much immigrants increase total output and how much of this increase they themselves receive as wages and salaries.

From Fig. 2 two conditions for an “immigration surplus” to be created can be seen immediately. An “immigration surplus” will only be obtained if the immigrants are absorbed into the labor market. Also, an “immigration surplus” requires immigration to lower the wages of at least some natives compared to the pre-immigration situation. As Borjas (1999a: 90; 96) has succinctly put it: no pain, no gain!²⁰

As discussed earlier, there is some evidence of a negative relationship between welfare state generosity and immigrants’ labor market participation and employment rates. Hence the size of the “immigration surplus” must also be negatively related to the level of welfare benefits in Western welfare states, with the most generous welfare states realizing the smallest “immigration surplus” (if any).

¹⁹ It also depends on the behavior of the natives. Here especially the extent of discrimination against immigrants in the labor market can influence the extent to which potential gains from immigration can be realized. Such discrimination may reflect irrational motives, like xenophobia or racism, or rational motives like the protection of rents by native insiders in the labor market against immigrant outsiders (Lindbeck and Snower, 1988, 2002). However, a Danish study (Schultz-Nielsen, 2002) concludes that ethnic discrimination is not the dominant factor in explaining poor labor market integration of immigrants in Denmark.

²⁰ For a considerably more refined analysis of the effect of migration on income redistribution, see Wildasin (1994).

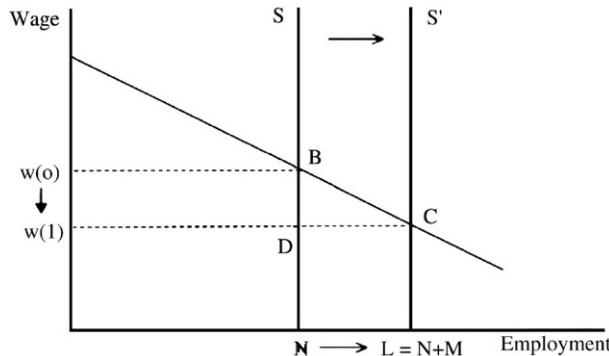


Fig. 2. The “immigration surplus”.

Even in a residual welfare state like the US, the size of the “immigration surplus” does not appear to be overwhelming. Borjas (1999a: 90–103) calculates the “immigration surplus” in the case of the US to be in the magnitude of 0.1% of GDP — in 1998 about \$30 per native born.²¹ If one accepts that estimate, it follows that the “immigration surplus” must be expected to be even smaller in the more generous welfare states of Western Europe (but not necessarily in the UK or the Southern European countries). Given the characteristics of the later years’ immigration into Western welfare states, the pro-immigration argument from economic benefits accruing to the natives is weak.

In addition, as shown in Fig. 2, an “immigration surplus” can only be realized at the price of increased income inequality. This distributional effect of immigration may be politically difficult to accept, especially in the strongly redistributive welfare states, which in most cases happen also to have strong social democratic parties and trade unions bound on keeping society “just”.²²

4.1.2. Can immigration solve the demographic problem in Western welfare states?

Many Western welfare states confront the prospect of ageing populations, which will make dependency rates soar in the near future. According to recent UN estimates Europe stands to lose 17% of her population over the next 50 years (UN, 2000). Since immigrants tend to be younger than natives (Brücker et al., 2002: 22), it may seem natural to turn to immigration as a means to ameliorate some of the problems associated with the ongoing demographic change.

What seems sometimes to be overlooked in this discussion is the extremely high size of the replacement immigration needed to keep dependency ratios constant in the face of a rapidly ageing native population in Western countries (UN, 2000; Coleman, 2002). Apart from the fact that immigration of the magnitude needed to keep dependency ratios constant would turn natives into minorities in many Western countries within a relatively short time span — which they might resent — immigration of such orders of magnitude might also have strong negative externalities associated with it, like crowding or environmental effects.

In any case, immigration can only help in solving the problems associated with soaring dependency ratios if immigrants do not end up as net-beneficiaries of the welfare state

²¹ Under the assumption of a wage elasticity of 0.03 (Borjas, 1999a: 91).

²² O'Rourke and Sinnott (2006) show that individual attitudes towards immigration in host countries tend to be less negative among the high-skilled than among the low-skilled, as would have been predicted from factor proportions trade theory under the assumption that immigrants are mainly low-skilled.

themselves. As long as immigrants are more welfare dependent than natives, immigration must necessarily contribute to worsening the upcoming fiscal problems of the Western welfare states due to the demographic change, rather than to solving the problems. In many Western welfare states this appears to be the situation.

4.1.3. Can immigrants make the labor market function better?

One might be inclined to think that the positive impacts of immigrants on the smooth functioning of labor markets in Western welfare states must be limited, since the proportion of immigrants in the workforces of these countries is rather small and since many immigrants are not even gainfully employed. Epstein and Hillman (2003) propose an efficiency-wage model in which immigrants have a positive effect on the labor market, even if they are not gainfully employed and are living off tax-financed income transfers, and even if they are not all that numerous. The model suggests that immigrants may be *gainfully unemployed* as they take on the disciplining role of the unemployed in an efficiency-wage model of unemployment. In equilibrium there is of necessity some unemployment and natives prefer to avoid unemployment by having immigrants present as the unemployed. Since immigrants are voluntarily present, those who stay as unemployed must be better off on income transfers in their host country than they would have been in their countries of origin.²³ Thus in this model everybody gains from immigration, even though parts of the immigrant population are not gainfully employed! However, Epstein and Hillman point out that immigrants then have to accept job offers when such offers are made; otherwise the disciplining role of their unemployment is not credible.²⁴

4.1.4. Do immigrants create additional jobs and income for natives?

Immigrants increase the demand for goods and services and hence create jobs and income for natives. This effect is not independent of how immigrants' consumption is financed. If immigrants finance their consumption out of their own earnings in the labor market, they will indeed increase domestic demand and income for the natives. The net effect on demand will, however, also depend on whether immigration increases native unemployment or lowers native wages. If, on the other hand, immigrants' consumption is mainly paid out of tax-financed social transfers, the positive net effect of immigration on domestic demand is less certain. Tax-financed income transfers imply restricting other peoples' (the taxpayers) consumption in order to allow immigrants to consume. Thus natives may lose from the taxation required to finance income transfers to immigrants what they gain in income from the extra demand generated by immigrants.

Everything considered, the gain from immigration boosting domestic demand would seem to be smallest in the most generous Western welfare states, because of the poor labor market integration of immigrants into these welfare states and their heavy reliance on tax-financed social transfers.

4.2. Negative economic effects of immigration into Western welfare states

Potential negative economic effects from immigration into Western welfare states are commonly discussed under three headings: (i) Adverse impacts on the wages or the employment

²³ Epstein and Hillman acknowledge that this may not be true in the case of refugees.

²⁴ This assumption might turn out to be a problem when the model is applied to reality. Among unemployed immigrants and descendants in Denmark in 2001, a study found that 22% did not want a job, while 30% had not looked for a job for the last four weeks (Constant and Schultz-Nielsen, 2004: 156).

of natives, (ii) economic strain on various social security programs, and (iii) negative fiscal impact (of which (ii) is a subset).

4.2.1. Adverse impacts on native wages or employment?

Assuming the simplest case, immigrants should have a negative impact on the wages of those natives for which they are substitutes, while they may have a positive impact on the wages of those natives for whom they are complements and on the earnings of “the hiring class”. Thus immigration will have a distributional impact. In the first place, immigration will transfer income from workers to employers, if immigrants are absorbed into the labor market and labor markets clear. Depending on the pre-immigration distribution of incomes between workers and employers, this effect may increase or (less likely) decrease income inequality in society. Secondly, immigration may increase or decrease income inequality among workers, depending on whether immigrants are substitutes primarily for skilled or to unskilled native workers. If wages are rigid due to institutional arrangements in the labor market or other reasons, immigration could result in unemployment instead of reduced wages. Unemployment will have distributional effects as well, as increased unemployment in some group of workers (like the unskilled) implies lower average wages for that group.

In this indirect way immigration may have an adverse impact on welfare systems in the host societies in two respects. In the first place immigration may push natives into welfare due to unemployment or wage reductions. In the second place immigration may change the income distribution away from the socially preferred degree of income equality.

Empirical evidence for the existence and the size of negative labor market effects from immigration on natives is extremely mixed. This is true for both American studies and studies in European welfare states, and for both wage and employment effects. To a considerable part this reflects methodological problems. Thus cross-section studies of regions or branches trying to relate immigrant density to labor market outcomes for natives (spatial correlations) suffer from an obvious endogeneity problem. In theory the problem could be circumvented by using instruments but the choice of suitable instrumental variables is subjective, controversial, and influences estimation results. Results may also be distorted if affected natives react to the influx of immigrants into regions and branches by moving out, and if lower wages arising from immigrants entering regions or branches attract outside capital (Friedberg and Hunt, 1995; Borjas, 1994, 1999a; Brücker et al., 2002). The analysis of “natural experiments”, like the “Mariel boatlift” from Cuba to Miami in 1980 (Card, 1990) or the immigration from Russia into Israel following the collapse of the Soviet Union (Hercowitz and Yashiv, 2002; Cohen-Goldner and Paserman, 2004a,b) can be claimed to be subject to the same qualifications (Borjas, 1999a: 72–73).

The general picture emerging from the empirical studies at hand seems to be that wage and employment effects of immigration on natives tend to be small (Brücker et al., 2002: 28–31; Hanson et al., 2002: 192–204). In the US the largest wage effects tend to be found for high-school dropouts at the national level. For American high-school dropouts immigration can account for about half of the post-1980 decline in relative earnings. In European countries the largest negative wage effect is reported by DeNew and Zimmermann (1994), who estimate an average native wage loss of almost 4% from a 10% increase in the share of foreigners.²⁵ For Israel Cohen-Goldner and Paserman (2004b) find that a 10% increase in the share of immigrants with little local experience in a given segment of the Israeli labor market results in a short run wage loss to natives of –3%. However, this effect vanishes over four to seven years. Other estimates of native wage losses from

²⁵ Blue-collar workers would lose 5.9%, while white-collar workers would gain about 3.5%. Thus the results indicate a considerable degree of redistribution not only between workers and employers, but also among workers.

immigration seem typically to run in the magnitude of 0.1% to 0.5% for a 10% increase in the share of foreigners (Brücker et al., 2002: 28–31).

The evidence for displacement effects on native labor from immigration is generally even weaker. However, Hercowitz and Yashiv (2002) find negative effects of the immigration from the former Soviet Union on the employment of natives in Israel, although with a one-year lag. Cohen-Goldner and Paserman (2004a) also find a negative employment effect from this immigration on native Israelis in certain groups.

Finding in general only small labor market effects from immigration on natives in European welfare states makes sense, given the institutional set up of European labor markets. They seem harder to rationalize in an American framework. In any case there is very little empirical evidence to support the conclusion that immigration into Western welfare states has adversely affected welfare systems in these countries by pushing native workers into welfare or by seriously endangering income equality goals. If immigration has negative impacts on welfare systems in Western European welfare states, the mechanism must be different.

4.2.2. Economic drain on welfare programs?

A recurrent theme in political and public debates on immigration and immigrants everywhere is the use of various welfare programs by immigrants and the cost of this use.

The extent to which immigrants use various welfare programs will generally depend on three factors: (i) the age and gender composition of the immigrant group, (ii) the immigrants' degree of labor market absorption, and (iii) the entitlement structure of the welfare system. Since immigrants tend to be less well-integrated into the labor markets of welfare states offering generous benefit levels, and since these welfare states also tend to have quite lenient eligibility criteria for many welfare programs, immigrants should be expected to be a heavier burden on welfare programs, especially unemployment benefits and social transfers, in the more than in the less generous welfare states.

There seems to be some disagreement as to how to calculate the cost of immigrants to a particular welfare program. Brücker et al. (2002: 98) argue that the negative economic effect from immigration on the cost of a welfare program is "... typically moderate, since its order of magnitude is the product of the proportion of immigrants – a few percentage points – times the excess UB²⁶ dependency of migrants — a few percentage points too." This may seem a somewhat particular type of cost accounting, since it only recognizes the cost of immigrants' *excess use* of a welfare program as a cost. As long as immigrants do not use a welfare program to a greater extent than natives, they are not causing any cost according to this accounting. This reasoning must appear somewhat strange from a taxpayer perspective.

4.2.3. Total fiscal net effects of immigration

The question of the financial impact of immigrants on a particular welfare program is just a subset of the questions about the total fiscal net impact of immigrants. Do immigrants pay more, in the way of taxes etc., into the public purses than they take out? This is a controversial and politically sensitive issue.²⁷ It is also a question that is methodologically difficult to answer. Moreover, the answers can in some cases be strongly dependent on the assumptions made. This is true in particular of long-run calculations.

²⁶ UB = Unemployment benefit.

²⁷ In Denmark governments up to 1997 repeatedly and successfully declined requests in the parliament to have the fiscal impact of immigration calculated. The first cross-section estimate was published in December 1997 showing a net cost of 11.3 bill. Dkr. for non-Western immigrants in 1995.

Wadensjö and Orrje (2002) survey the existing studies. A number of studies from Denmark (including those of Wadensjö) and a single study from Norway show a significant net transfer to non-Western immigrants (refugees in the case of Norway). For Sweden the results are more mixed, mostly depending on the time reference of the particular study. Up to the 1970s a considerable net transfer from immigrants was found. After that time there has been a likewise considerable net transfer *to* immigrants. Thus in the three generous Nordic welfare states the fiscal net impact of immigrants has been found to be negative since the 1990s. For a number of other European welfare states the results indicate a less negative or even a positive fiscal effect.

Results from American studies are somewhat mixed, depending *inter alia* on the time frame used. The study by the National Academy of Sciences (Smith and Edmonston, 1997) shows that the short run fiscal net impact of immigrants is clearly negative. The study also estimates the discounted annual fiscal impact over the next three centuries of admitting one immigrant in 1994. This calculation shows a total fiscal gain of \$80,000. Up to 2016, the discounted annual fiscal impact of an immigrant admitted in 1994 is negative. After that point it changes abruptly to become strongly positive. One of the factors contributing most strongly to turning the discounted annual fiscal impact of an immigrant admitted in 1994 from negative to positive is that the present US fiscal policy is unsustainable and that by assumption the US government will decide to increase taxes to rein in its debt problem in 2016. If this assumption is not made and US governments are instead assumed to continue their present tax and expenditure policies, the \$80,000 net gain from an immigrant admitted in 1994 turns into a \$15,000 net loss (still calculated over 300 years).

The studies of the fiscal net impact of immigration show that this impact depends strongly on two factors. The first one is the age composition of the immigrant population. Since younger people tend to cause fewer costs than older ones, the age composition of the immigrant populations in Western welfare states influences the fiscal impact of immigrants positively. The second one is labor market integration. Here the generally slow integration and generally low absorption rate of immigrants into the labor markets of their host countries influences the fiscal impact of immigrants negatively (Wadensjö and Orrje, 2002: 51). Thus the fiscal net impact depends on which factor dominates.

It also seems to make quite a difference whether the fiscal impact of immigrants is calculated over the short or the long run. In the short run the net fiscal impact tends to be negative in most countries. This can change when the long run is considered, but this change is often the consequence of the assumptions being made, like the change from an unsustainable to a sustainable fiscal policy or the descendants of immigrants achieving the same labor market participation rates, earnings etc. as natives rather quickly.²⁸

4.3. Are immigrants into Western welfare states an asset or a burden?

Everything considered, there is not much empirical evidence to support a conclusion that immigrants arriving during the last 15 years have been economic assets for Western welfare states. The main reason is relatively low labor market participation rates and relatively high unemployment levels. It also appears that the negative impacts of immigration are strongest in the most generous welfare states. Thus one may possibly consider it a stylized fact that immigration into Western welfare states of predominately low-skilled immigrants is advantageous

²⁸ It might be added that even if 20 years may be “short run” in a technical sense, the prospect of a considerable net gain after 300 years is of little comfort to those who have to contribute to the short-run costs but cannot hope to live long enough to reap the long run benefits — which will hold true of most people, cf. also Borjas (1999a: 125).

to the immigrants, but not for natives, in the short run, and that the gains from migration are most asymmetrically distributed between immigrants and natives in the most generous welfare states.

5. Immigration and the future of Western welfare states

The economic impact of immigrants on Western welfare states appears negative in that natives do not gain because of intended and unintended consequences of welfare systems. Since welfare systems are politically determined, this raises the question whether immigration will eventually lead to a weakening of political support for welfare systems.

If the native born in Western welfare states are dissatisfied with the “fiscal leakage” to immigrants, they have two possible strategies. They can try to reduce this leakage by a change in welfare policies through a lower tax burden and less redistribution. Alternatively they may try to change the size and/or skill composition of the immigrant inflow. There are constraints to such policy changes, however. Immigrants do not stay immigrants forever. At some point in time they change into nationals with the right to vote. Being low-skilled and low-paid, this new voter group must be expected to be in favor of keeping tax levels and levels of redistribution high. In the second place institutions, like human rights conventions, may constrain policy options and prevent the native born from implementing certain changes in welfare and/or immigration policies that would be discriminatory towards immigrants.

Political economy models show how policy might change due to immigration. Hansen (2003) proposes a model where the prospect of low-skilled immigration leads the median voter to realize that he or she will not be the median voter in the future and so the median voter chooses a reduced welfare state. If indeed the median voter internalizes the effect of the generosity of the welfare system on immigration, the conclusions are logically correct. Razin et al. (2002) also set out a model in which increased low-skilled immigration leads to a retrenchment of the welfare state, although immigrants join the pro-welfare coalition.²⁹ They suggest empirical support for their model. Using data on 11 European countries they report a negative relationship between the proportion of low education immigrants and the tax-rate, as predicted from the model. Other test results appear less clear. Ortega (2004) proposes a model with endogenous immigration and redistribution policies. His model shows that there are important differences between voter reactions where voters care only about the impact of immigrants on labor markets and redistribution and where voters also take into account the impact of immigration on future policies.³⁰ The model shows that in equilibrium a majority of unskilled voters will allow for unskilled immigration of the size necessary to offset any

²⁹ Whether this happens depends on the characteristics of the median voter prior to the increase in the number of immigrants. If the median voter is a low-skilled native-born, the majority of voters must be low-skilled. Since this majority gains from redistribution, it will have pushed the tax-rate and the level of redistribution upwards to the limit even before the increase in migration. A further increase in the size of the pro-welfare group through increased immigration hence cannot change the power balance between the pro- and the anti-welfare group. However, increased immigration will mean that the median voter will lose marginally from the last percentage point of the tax rate as a larger part of the revenues so generated go to the immigrants, because their numbers have increased. Faced with increased low-skilled immigration, the median voter will hence support a lower tax-rate and a reduced level of redistribution, even if he is low skilled himself. If the median voter happens to be a low-skilled national-turned previous immigrant, nothing happens to the tax-rate and the level of redistribution in the face of increased immigration, because there is no fiscal leakage. If the median voter is a skilled native-born, the effect of increased immigration on the tax-rate and redistribution level is ambiguous.

³⁰ If only the impact of immigration on labor markets and redistribution is taken into account, skilled voters will support unrestricted unskilled immigration and low redistribution, while unskilled voters will support unrestricted skilled immigration and high redistribution. As soon as voters take into account also the effect of immigration on future policies, due to immigrants eventually obtaining the right to vote, quantity restrictions on immigration come into play.

growth in the proportion of skilled (due to human capital build-up) and preserve high levels of redistribution. The model has not yet been subjected to empirical testing.

6. Conclusions

We can bring the discussion of the welfare state–immigration nexus somewhat closer to reality than is implied in Friedman's above-mentioned famous dictum that free immigration is incompatible with a welfare state. Existing research conclusions also allow more precision about the effects of immigration on Western welfare states than Borjas' generalization as quoted above.

At the most general level, most of the existing research supports the conclusion that immigration flows with the average characteristics of the immigration into Western welfare states of the last 15 to 20 years tend not to be to the advantage for the natives, while advantageous for immigrants. Theory can account for the mechanisms underlying this asymmetric distribution of gains from immigration, but the empirical evidence is mixed in quite some instances. We face challenges for further research, especially research giving more weight to the institutional dimensions of immigration and immigrant absorption.

Acknowledgements

An earlier version of this paper was presented at the conference on “Immigration and the Welfare State” at Sandbjerg Manor, Denmark, September 16–19, 2005. Useful comments and suggestions from the participants are gratefully acknowledged. Remaining errors of fact or judgment are the sole responsibility of the author.

References

- Barr, N., 1993. *The Economics of the Welfare State*. Oxford University Press, Oxford.
- Bauer, T., Zimmermann, K.F., 1999. Assessment of Possible Migration Pressure and Its Labour Market Impact Following EU Enlargement to Central and East Europe. IZA, Bonn.
- Bommes, M., 1999. *Migration und nationaler Wohlfahrtsstaat*. Westdeutscher Verlag, Opladen.
- Bommes, M., Geddes, A., 2000. *Welfare and Immigration: Challenging the Borders of the Welfare State*. Routledge, London.
- Boeri, T., Hanson, G., McCormick, B., 2002. Preface. In: Boeri, T., Hanson, G., McCormick, B. (Eds.), *Immigration Policy and the Welfare System*. Oxford University Press, Oxford, pp. v–xvi.
- Borjas, G.J., 1990. *Friends or Strangers: The Impact of Immigrants on the U.S. Economy*. Basic Books, New York.
- Borjas, G.J., 1994. The economics of immigration. *Journal of Economic Literature* 32, 1667–1717.
- Borjas, G.J., 1998. Immigration and Welfare Magnets. NBER Working Paper, vol. 6813. National Bureau of Economic Research, Cambridge MA.
- Borjas, G.J., 1999a. *Heaven's Door*. Princeton University Press, Princeton.
- Borjas, G.J., 1999b. Immigration and welfare magnets. *Journal of Labor Economics* 17, 607–637.
- Borjas, G.J., 2005. Research Summary. NBER Website 9 May 2005.
- Borjas, G.J., Hilton, L., 1996. Immigration and the welfare state: immigrant participation in means-tested entitlement programs. *Quarterly Journal of Economics* 11, 575–604.
- Brücker, H., Epstein, G.S., McCormick, B., Saint-Paul, G., Venturini, A., Zimmermann, K.F., 2002. Managing migration in the European welfare state. In: Boeri, T., Hanson, G., McCormick, B. (Eds.), *Immigration Policy and the Welfare System*. Oxford University Press, Oxford, pp. 1–168.
- Card, D., 1990. The impact of the Mariel boatlift on the Miami labor market. *Industrial and Labor Relations Review* 43, 245–257.
- Chand, S.K., Paldam, M., 2004. The economics of immigration into a Nordic welfare state. Paper presented at the European Public Choice Society Annual Meeting, Berlin.
- Chiquiar, D., Hanson, G.H., 2002. International Migration, Self-selection, and the Distribution of Wages: Evidence from Mexico and the United States. NBER Working Paper, vol. 9242. National Bureau of Economic Research, Cambridge MA.

- Cobb-Clark, D.A., 1993. Immigrant selectivity and wages: the evidence for women. *American Economic Review* 83, 986–993.
- Cohen-Goldner, S., Paserman, M.D., 2004a. Mass Migration to Israel and Natives' Transitions from Employment. Discussion Paper, vol. 1310. IZA, Bonn.
- Cohen-Goldner, S., Paserman, M.D., 2004b. The Dynamic Impact of Immigration On Natives' Labor Market Outcomes: Evidence from Israel. Discussion Paper, vol. 1315. IZA, Bonn.
- Coleman, D., 2002. Replacement migration, or why everyone is going to have to live in Korea: a fable for our times from the United Nations. *Philosophical Transactions of the Royal Society B* 357, 583–598.
- Constant, A., Schultz-Nielsen, M.L., 2004. Labor force participation and unemployment: incentives and preferences. In: Tranæs, T., Zimmermann, K.F. (Eds.), *Migrants, Work, and the Welfare State*. University Press of Southern Denmark, Odense, pp. 147–186.
- DeNew, J., Zimmermann, K.F., 1994. Native wages impacts of foreign labour: a random effects panel analysis. *Journal of Population Economics* 7, 177–192.
- Epstein, G.S., Gang, I.N., 2004. The influence of others on migration plans. Discussion Paper, vol. 1244. IZA, Bonn.
- Epstein, G.S., Hillman, A.L., 2003. Unemployed immigrants and voter sentiment in the welfare state. *Journal of Public Economics* 87, 1641–1655. Reprinted in: Katayama, S., Ursprung, H.W., (Eds.), *International Economic Policies in a Globalized World*. Springer, Berlin, 2004, pp. 119–132.
- Esping-Andersen, G., 1990. *The Three Worlds of Welfare Capitalism*. Polity Press, Cambridge UK.
- Freeman, G., 1986. Migration and the political economy of welfare. *Annals of the American Academy of Social and Political Sciences* 485, 51–63.
- Friedberg, R.M., Hunt, J., 1995. The impact of immigrants on host country wages, employment and growth. *Journal of Economic Perspectives* 9, 23–44.
- Hansen, J.D., 2003. Immigration and income redistribution in welfare states. *European Journal of Political Economy* 19, 735–746.
- Hanson, G.H., Scheve, K.F., Slaughter, M.J., Silimbergo, A., 2002. Immigration and the US economy: labor-market impacts, illegal entry, and policy choices. In: Boeri, T., Hanson, G., McCormick, B. (Eds.), *Immigration Policy and the Welfare System*. Oxford University Press, Oxford, pp. 171–285.
- Hatton, T., Williamson, J.G., 2000. What Fundamentals Drive World Migration? NBER Working Paper, vol. 9159. National Bureau of Economic Research, Cambridge MA.
- Heitmüller, A., 2002. Unemployment Benefits, Risk Aversion, and Migration Incentives. Discussion Paper, vol. 610. IZA, Bonn.
- Hercowitz, Z., Yashiv, E., 2002. A Macroeconomic Experiment in Mass Immigration. Discussion Paper, vol. 475. IZA, Bonn.
- Joppke, C., 1999. *Immigration and the Nation-State*. Oxford University Press, Oxford.
- Lindbeck, A., Snower, D.J., 1988. *The Insider–Outsider Theory of Employment and Unemployment*. MIT Press, Cambridge MA.
- Lindbeck, A., Snower, D.J., 2002. The Insider–Outsider Theory: A Survey. Discussion Paper, vol. 534. IZA, Bonn.
- Mayda, A.M., 2005. International Migration: A Panel Data Analysis of Economic and Non-economic Determinants. Discussion Paper, vol. 1590. IZA, Bonn.
- Nannestad, P., 2004. A game, real actors won't play? Integration of ethnic minorities in Denmark as a collective action dilemma. *International Migration Review* 38, 287–308.
- Nannestad, P., 2005. Taxing the rich or the poor? Immigrants on the dole as the socially optimal policy for rational egalitarians. Paper Presented at the Conference on Immigration and the Welfare State, September 16–18, 2005. Sandbjerg Manor, Denmark.
- Nielsen, T., 2004. Do politics matter? A comparative analysis of integration policies and integration results in Denmark and Great Britain. MA Thesis, Department of Political Science, Aarhus University, Aarhus.
- Nærø, A., 2005. Refugees' choice of destination country in Europe: Welfare state magnets? BA Thesis, Department of Political Science, Aarhus University, Aarhus.
- OECD, 2000. Trends in International Migration. OECD, Paris.
- Okun, A.M., 1975. Equality and efficiency: The Big Tradeoff. The Brookings Institution, Washington, DC.
- Ortega, F., 2004. *Immigration and the Survival of the Welfare State*. Universitat Pompeu Fabra, Barcelona.
- O'Rourke, K.H., Sinnott, R., 2006. The determinants of individual attitudes towards immigration. *European Journal of Political Economy* 22, 838–861.
- Putnam, R., 2000. *Bowling Alone: The Collapse and Revival of American Community*. Simon and Schuster, New York.
- Pedersen, P.J., Pytlíkova, M., Smith, N., 2004. Selection or Network Effects? Migration Flows into 27 OECD Countries, 1990–2000. Discussion Paper, vol. 1104. IZA, Bonn.
- Razin, A., Sadka, E., Swagel, P., 2002. Tax burden and migration: a political economy theory and evidence. *Journal of Public Economics* 85, 167–190.

- Rodrik, D., 2002. Final remarks. In: Boeri, T., Hanson, G., McCormick, B. (Eds.), *Immigration Policy and the Welfare System*. Oxford University Press, Oxford, pp. 314–317.
- Roy, A.-D., 1951. Some thoughts on the distribution of earnings. *Oxford Economic Papers, New Series* 3, 135–146.
- Sassen, S., 1996. *Losing Control?* Columbia University Press, New York.
- Schultz-Nielsen, A.M., 2002. Hvorfor er så mange indvandrere uden beskæftigelse? (Why are so many immigrants not gainfully employed?) In: Mogensen, G.V., Matthiesen, P.C. (Eds.), *Indvandrere og arbejdsmarkedet. (Immigrants and the labor market)*. Spektrum, Copenhagen, pp. 118–159.
- Schultz-Nielsen, A.M., Constant, A., 2004. Employment trends for immigrants and natives. In: Tranæs, T., Zimmermann, K.F. (Eds.), *Migrants, Work, and the Welfare State*. University Press of Southern Denmark, Odense, pp. 119–146.
- Sinn, H.-W., 2002. EU Enlargement and the future of the welfare state. *Scottish Journal of Political Economy* 49 (1), 104–115.
- Smith, J.P., Edmonston, B., (Eds.), 1997. *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*. National Academy Press, Washington, DC.
- Soysal, Y., 1994. *Limits of Citizenship*. University of Chicago Press, Chicago.
- United Nations, 2000. *Replacement Migration: Is it a Solution to Declining and Aging Populations?* UN Population Division, New York.
- Wadensjö, E., Orrje, H., 2002. *Immigration and the Public Sector in Denmark*. Aarhus University Press, Aarhus.
- Wellisch, D., Walz, U., 1998. Why do rich countries prefer free trade over free migration? The role of the modern welfare state. *European Economic Review* 42, 1595–1612.
- Wildasin, D.D., 1994. Income redistribution and migration. *Canadian Journal of Economics* 27, 637–656.
- Zavodny, M., 1999. Determinants of recent immigrants' locational choices. *International Migration Review* 33 (4), 1014–1030.
- Zimmermann, K.F., 1995. Tackling the European migration problem. *Journal of Economic Perspectives* 9, 45–62.